

**AMERICANS UNITED FOR SEPARATION  
OF CHURCH AND STATE  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017**



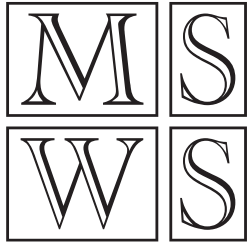
**MULLEN SONDBERG WIMBISH & STONE, PA**  

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**CERTIFIED PUBLIC ACCOUNTANTS**

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MULLEN & SONDBERG  
WIMBISH & STONE, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Americans United for Separation  
of Church and State  
Washington D.C.

We have audited the accompanying financial statements of Americans United for Separation of Church and State (a non-profit Organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors of  
Americans United for Separation of Church and State

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Americans United for Separation of Church and State as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The detail schedule of expenses on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Report on Summarized Comparative Information**

We have previously audited the Americans United for Separation of Church and State's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland  
March 19, 2018  
(Except for Note 18, as to which the date is June 5, 2018)

Americans United for Separation of Church and State  
STATEMENT OF FINANCIAL POSITION  
September 30, 2017  
ASSETS

	2017	2016
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 696,861	\$ 410,720
Investments	10,023,670	9,292,306
Bequests receivable	259,298	451,923
Interest receivable	43,229	24,479
Pledges receivable	-	67,500
Other receivables	252	125,376
Inventory	3,693	7,683
Prepaid expenses	84,260	71,600
Deposits	46,124	10,662
Total current assets	11,157,387	10,462,249
<b>PROPERTY AND EQUIPMENT</b>		
Net of accumulated depreciation	988,538	270,314
<b>OTHER ASSETS</b>		
Cash and cash equivalents - restricted for remainder trust	7,279	7,277
Investments - restricted for remainder trust	254,814	253,738
Deposits	85,505	113,100
Finance lease right of use assets, net of accumulated amortization	61,556	34,899
Operating lease right of use asset	4,841,786	-
Total other assets	5,250,940	409,014
Total assets	\$ 17,396,865	\$ 11,141,577
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 109,799	\$ 95,375
Accrued expenses	381,837	294,995
Accrued pension	1,005,129	1,252,223
Deferred revenue	169,840	400
Deferred rent	79,082	2,026
Finance lease obligations	15,060	20,192
Charitable annuities payable	150,657	167,282
Operating lease liability	479,877	-
Total current liabilities	2,391,281	1,832,493
<b>LONG-TERM LIABILITIES</b>		
Deferred rent	1,129,688	48,587
Finance lease obligations	47,614	16,996
Charitable annuities payable	594,859	686,459
Remainder trust payable	146,897	149,208
Operating lease liability	4,361,909	-
Total long-term liabilities	6,280,967	901,250
Total liabilities	8,672,248	2,733,743
<b>NET ASSETS</b>		
Unrestricted	966,163	1,366,683
Unrestricted, Board designated	7,643,258	6,861,844
Temporarily restricted	115,196	179,307
Total net assets	8,724,617	8,407,834
Total liabilities and net assets	\$ 17,396,865	\$ 11,141,577

The accompanying notes are an integral part of these financial statements.

Americans United for Separation of Church and State  
**STATEMENT OF ACTIVITIES**  
Year Ended September 30, 2017  
With Summarized Financial Information for the Year Ended September 30, 2016

	Unrestricted	Temporarily Restricted	2017	2016
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions	\$ 4,525,722	\$ 7,500	\$ 4,533,222	\$ 3,955,214
Bequests	1,027,104	-	1,027,104	1,447,256
Realized and unrealized gain (loss) on investments	710,166	-	710,166	(2,952)
Trust and foundation grants	515,429	-	515,429	557,981
Investment income, net of expenses	424,157	-	424,157	396,635
Legal settlement	54,959	-	54,959	75,000
Voices united	36,717	-	36,717	51,626
Other revenue	15,768	-	15,768	11,026
Donated services	15,000	-	15,000	-
Contributions - chapters	8,870	-	8,870	5,829
Gift annuity income	6,520	-	6,520	52,539
Sales of literature	3,054	-	3,054	6,000
Contributions - local churches	580	-	580	1,280
Change in value of split interest agreements	(46,825)	3,389	(43,436)	(50,747)
Loss on disposal of property and equipment	(61,717)	-	(61,717)	-
	<u>7,235,504</u>	<u>10,889</u>	<u>7,246,393</u>	<u>6,506,687</u>
Net assets released from restriction	<u>75,000</u>	<u>(75,000)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>7,310,504</u>	<u>(64,111)</u>	<u>7,246,393</u>	<u>6,506,687</u>
<b>EXPENSES</b>				
Program services				
Educational and publication division	1,788,586	-	1,788,586	1,600,386
Field services division	1,371,091	-	1,371,091	1,262,143
Legal division	1,591,589	-	1,591,589	1,274,138
Trustees and national advisory council meetings	65,688	-	65,688	46,784
Total program services	<u>4,816,954</u>	<u>-</u>	<u>4,816,954</u>	<u>4,183,451</u>
Supporting services				
Management and general	1,022,398	-	1,022,398	888,900
Fundraising	1,337,352	-	1,337,352	1,292,580
Total supporting services	<u>2,359,750</u>	<u>-</u>	<u>2,359,750</u>	<u>2,181,480</u>
Total expenses	<u>7,176,704</u>	<u>-</u>	<u>7,176,704</u>	<u>6,364,931</u>
Change in net assets before other items	133,800	(64,111)	69,689	141,756
<b>OTHER ITEMS</b>				
Minimum pension liability adjustment	247,094	-	247,094	7,199
Change in net assets	380,894	(64,111)	316,783	148,955
NET ASSETS AT BEGINNING OF YEAR	<u>8,228,527</u>	<u>179,307</u>	<u>8,407,834</u>	<u>8,258,879</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,609,421</u>	<u>\$ 115,196</u>	<u>\$ 8,724,617</u>	<u>\$ 8,407,834</u>

The accompanying notes are an integral part of these financial statements.

Americans United for Separation of Church and State  
STATEMENT OF CASH FLOWS  
Year Ended September 30, 2017

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 316,783	\$ 148,955
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	139,827	79,527
Realized and unrealized (gain) loss on investments	(710,166)	2,952
Change in value of split interest agreements	43,436	50,747
Loss on disposal of property and equipment	61,717	-
Change in present value discount and allowance on pledges	(7,500)	(7,361)
Donated securities	(145,883)	(249,180)
(Increase) decrease in operating assets:		
Bequests receivable	192,625	(362,190)
Interest receivable	(18,750)	6,969
Other receivables	125,124	(124,975)
Inventory	3,990	(2,856)
Prepaid expenses	(12,660)	17,031
Deposits	(7,867)	(87,070)
Increase (decrease) in operating liabilities:		
Accounts payable	14,424	5,692
Accrued expenses	86,842	35,808
Accrued pension	(247,094)	(7,199)
Deferred revenue	169,440	400
Deferred rent	301,432	46,673
Net cash provided by (used in) operating activities	305,720	(446,077)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments, including income reinvested	(7,359,056)	(6,198,548)
Proceeds from sales of investments	7,482,665	6,507,113
Purchase of property and equipment	(23,666)	(116,712)
Net cash provided by (used in) investing activities	99,943	191,853
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Collections of contributions restricted for long-term purposes	75,000	50,000
Change in cash restricted by remainder trust	(2)	(7,277)
Increase in annuities payable from new gifts	3,480	57,461
Investment income on annuity funds	13,848	16,599
Principal payments on finance lease obligations	(40,548)	(19,385)
Payments on annuities payable	(171,300)	(171,129)
Net cash used in financing activities	(119,522)	(73,731)
Net change in cash and cash equivalents	286,141	(327,955)
Cash and cash equivalents at beginning of year	410,720	738,675
Cash and cash equivalents at end of year	\$ 696,861	\$ 410,720
<b>SUPPLEMENTARY DISCLOSURES:</b>		
Noncash investing and financing activities		
Purchase of property and equipment	\$ 946,425	\$ 116,712
Less tenant improvement allowance	(856,725)	-
Less amount financed	(66,034)	-
Net cash paid for property and equipment	\$ 23,666	\$ 116,712
Right of use asset obtained in exchange for operating lease liability	\$ 4,841,786	\$ -
Cash paid during the year for interest	\$ 2,281	\$ 1,995

The accompanying notes are an integral part of these financial statements.

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017

Note 1 - Summary of Significant Accounting Policies

Nature of Organization

Americans United for Separation of Church and State (the Organization) is organized as a non-profit educational Organization, and is granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The objective of the Organization is to defend, maintain, and promote religious liberty and the constitutional principle of the separation of church and state. The Organization's primary sources of support and revenues are contributions and investment income.

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont.)

Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. It is exempt from paying federal income tax on any income except unrelated business income. No provision has been made for income taxes as the Organization has had no significant unrelated business income.

Income Tax Position

The Organization follows the guidance of ASC 740-10, “*Accounting for Uncertainty in Income Taxes*” which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Organization’s financial statements.

The Organization analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Washington, D.C. statute. The Organization does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Organization’s financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after September 30, 2014 remain subject to examination by federal and State authorities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents represent deposits in checking and savings accounts and certificates of deposit with maturities of ninety days or less.

Investments

Investments are presented in the financial statements at quoted fair value. The net realized and unrealized appreciation (depreciation) in market value of investments is reflected in the statement of activities. Investments consist of various debt and equity investment vehicles, and cash and money market funds held by a broker.

Accounts Receivable

Accounts receivable are stated at the full amount, an allowance for doubtful accounts is not deemed necessary by management.

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont.)

Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable. Generally, the Organization records pledges receivable as temporarily restricted contributions revenue. Upon collection of the pledge, the assets are transferred to the appropriate net asset category based on the donor's intent. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Bequests

The Organization has been named as beneficiary of various estates. Revenue is recognized when the Organization is notified and the amount of the bequest is known.

Inventory

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

Property and Equipment

Organization policy dictates capitalization of property, plant and equipment costing \$1,000 or more. Property and equipment are stated at cost. Gifts of long-lived assets such as land, buildings, or equipment are recorded at their fair value. Depreciation is provided on the straight-line method over the estimated useful lives of the depreciable assets.

Advertising

The Organization expenses advertising costs when incurred. Advertising expenses were \$4,967 and \$11,150 for the years ended September 30, 2017 and 2016, respectively.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recognized the fair value of donated legal services as revenue and expense in the amount of \$15,000 and \$-0- for the years ended September 30, 2017 and 2016, respectively.

Reclassification of Prior Year Balances

Certain reclassifications of the prior year balances have been made to conform to current year presentation.

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont.)

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. Leases will be classified as financing or operating. Finance leases will be expensed through interest and amortization expense and operating leases will be expensed through lease expense on the statement of activities. The new standard is effective for the Organization for fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization has elected to early adopt the new standard in the financial statements for the fiscal year ended September 30, 2017.

Note 2 - Concentration of Cash Balances

At September 30, 2017 and 2016 and at various times during the fiscal years then ended, the Organization maintained cash balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Amounts held in excess of FDIC insurance coverage as of September 30, 2017 and 2016 were approximately \$242,000 and \$8,000, respectively.

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 3 - Investments

Investments are presented in the financial statements at fair market value. Donated securities are recorded at fair market value on the date of the gift. Investments consisted of the following for the years ended September 30:

	2017		
	Cost	Market	Cumulative Unrealized Gain (Loss)
Corporate stocks	\$ 6,277,607	\$ 6,270,158	\$ (7,449)
Bonds	2,347,198	2,245,848	(101,350)
Preferred stocks	917,695	968,981	51,286
Exchange traded funds	394,491	536,514	142,023
Mutual funds	1,104	2,026	922
Mortgage backed assets	23	143	120
	9,938,118	10,023,670	85,552
Restricted investments - annuities	299,141	254,814	(44,327)
	\$ 10,237,259	\$ 10,278,484	\$ 41,225
	2016		
	Cost	Market	Cumulative Unrealized Gain (Loss)
Corporate stocks	\$ 6,622,047	\$ 5,841,428	\$ (780,619)
Bonds	1,916,760	1,843,171	(73,589)
Preferred stocks	1,012,249	1,089,789	77,540
Exchange traded funds	426,066	517,235	91,169
Mutual funds	524	524	-
Mortgage backed assets	32	159	127
	9,977,678	9,292,306	(685,372)
Restricted investments - annuities	312,483	253,738	(58,745)
	\$ 10,290,161	\$ 9,546,044	\$ (744,117)

Realized and unrealized gain (loss) on the value of investments for the years ended September 30, 2017 and 2016 amounted to \$710,166 and \$(2,952), respectively.

Investment income is reported net of related expenses of \$102,047 and \$95,968 for the years ended September 30, 2017 and 2016, respectively.

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 4 - Fair Value Measurement

ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Organization measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability at the measurement date.

The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable requires significant judgment by the Organization's management with the consultation of its investment advisors. Management considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The classification of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument.

At September 30, 2017 and 2016, investments were classified by the level of input as stipulated by the fair value hierarchy using the market value approach.

Investments whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, include corporate stocks, preferred stocks, exchange traded funds, mutual funds, and bonds.

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 4 - Fair Value Measurement (Cont.)

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified with Level 2. These include certain mortgage backed assets, and unit investment trust annuities. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect liquidity and/or non-transferability, which are generally based on available market information.

Liabilities classified within Level 3 have significant unobservable inputs. Level 3 liabilities include pledges receivable, charitable gift annuities payable and remainder trusts. Pledges receivable are reflected at present value of estimated future cash flows using a discount rate of 3.5% at September 30, 2016. The Organization uses the actuarial method of recording annuity contracts. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables. The charitable gift annuity liability account is credited with investment income and gains and is charged with investment losses and payments to the beneficiary. Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses.

There have been no changes in investment valuation techniques or inputs.

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 4 - Fair Value Measurement (Cont.)

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

September 30, 2017	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments				
Corporate stocks	\$ 6,270,158	\$ -	\$ -	\$ 6,270,158
Bonds	2,245,848	-	-	2,245,848
Perferred stocks	968,981	-	-	968,981
Exchange traded funds	536,514	-	-	536,514
Mutual funds	2,026	-	-	2,026
Mortgage backed assets	-	143	-	143
Restricted annuities	-	254,814	-	254,814
Total investments	<u>10,023,527</u>	<u>254,957</u>	<u>-</u>	<u>10,278,484</u>
Total assets	<u>\$ 10,023,527</u>	<u>\$ 254,957</u>	<u>\$ -</u>	<u>\$ 10,278,484</u>
<b>Liabilities</b>				
Charitable annuities payable	\$ -	\$ -	\$ 745,516	\$ 745,516
Remainder trust payable	-	-	146,897	146,897
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 892,413</u>	<u>\$ 892,413</u>
<b>September 30, 2016</b>				
<b>Assets</b>				
Investments				
Corporate stocks	\$ 5,841,428	\$ -	\$ -	\$ 5,841,428
Bonds	1,843,171	-	-	1,843,171
Perferred stocks	1,089,789	-	-	1,089,789
Exchange traded funds	517,235	-	-	517,235
Mutual funds	524	-	-	524
Mortgage backed assets	-	159	-	159
Restricted annuities	-	253,738	-	253,738
Total investments	<u>9,292,147</u>	<u>253,897</u>	<u>-</u>	<u>9,546,044</u>
Pledges receivable	<u>-</u>	<u>-</u>	<u>67,500</u>	<u>67,500</u>
Total assets	<u>\$ 9,292,147</u>	<u>\$ 253,897</u>	<u>\$ 67,500</u>	<u>\$ 9,613,544</u>
<b>Liabilities</b>				
Charitable annuities payable	\$ -	\$ -	\$ 853,741	\$ 853,741
Remainder trust payable	-	-	149,208	149,208
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,002,949</u>	<u>\$ 1,002,949</u>

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 4 - Fair Value Measurement (Cont.)

The following table is a roll forward of the statement of financial position amounts for financial instruments classified within Level 3. Fair value measurement as of September 30, 2017 and 2016 using Level 3 inputs is as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>Pledges Receivable</u>	<u>Charitable Annuities Payable</u>	<u>Remainder Trust Payable</u>	
Balance as of September 30, 2015	\$ 110,139	\$ 898,866	\$ 150,405	
Investment gain	-	-	16,599	
Contributions	-	57,461	-	
Collections	(50,000)	-	-	
Change in allowance for doubtful accounts	5,000	-	-	
Change in present value discount	2,361	-	-	
Payments to annuitants	-	(157,357)	(13,772)	
Actuarial adjustment	-	54,771	(4,024)	
Balance as of September 30, 2016	<u>\$ 67,500</u>	<u>\$ 853,741</u>	<u>\$ 149,208</u>	
Balance as of September 30, 2016	\$ 67,500	\$ 853,741	\$ 149,208	
Investment gain	-	-	13,848	
Contributions	-	3,480	-	
Collections	(75,000)	-	-	
Change in allowance for doubtful accounts	7,500	-	-	
Payments to annuitants	-	(158,530)	(12,770)	
Actuarial adjustment	-	46,825	(3,389)	
Balance as of September 30, 2017	<u>\$ -</u>	<u>\$ 745,516</u>	<u>\$ 146,897</u>	



Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 5 - Pledges Receivable

Pledges receivable consist of the following at September 30:

	<u>2017</u>	<u>2016</u>
Pledges receivable in less than one year	\$ -	\$ 75,000
Pledges receivable due in one to five years	-	-
Total pledges receivable	-	75,000
Less: discounts to net present value	-	-
Less: allowance for doubtful accounts	-	(7,500)
	<u>\$ -</u>	<u>\$ 67,500</u>

The Organization has elected to follow ASC 825 to account for changes in fair value of pledges receivable. As of September 30, 2016 pledges receivable are reflected at present value of estimated future cash flows using a discount rate of 3.5%.

Note 6 - Property and Equipment

Property and equipment consisted of the following for the years ended September 30:

	<u>Estimated Lives</u>	<u>2017</u>	<u>2016</u>
Land	--	\$ 2,400	\$ 2,400
Mineral rights	--	2,970	2,970
Leasehold improvements	10 years	889,713	17,213
Furniture and equipment	5-7 years	539,089	584,410
Vehicles	5 years	28,567	28,567
Website development	3-5 years	152,190	117,190
Construction in progress	--	-	75,200
		<u>1,614,929</u>	<u>827,950</u>
Less accumulated depreciation		<u>(626,391)</u>	<u>(557,636)</u>
Net property and equipment		<u>\$ 988,538</u>	<u>\$ 270,314</u>

Depreciation and amortization expense for the years ended September 30, 2017 and 2016 amounted to \$139,827 and \$79,527, respectively.

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 7 - Defined Benefit Plan

The Organization has a defined benefit pension plan that covers those employees who have been employed with the Organization for at least one year in which 1,000 or more hours of service were rendered and had not attained 65 years of age at the date of employment. The Plan calls for benefits to be paid to eligible employees at retirement, based primarily upon years of service with the Organization and compensation rates near retirement. Effective October 1, 2008, the Plan was frozen. Existing employees will no longer accrue benefits and the pension Plan is no longer available to new employees.

The Organization contributes to the Plan based on the actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to Plan members. Plan assets consist of a deposit administration contract with Principal Financial Group. The annual measurement date is September 30 for the pension benefit. Contributions to the Plan for the years ended September 30, 2017 and 2016 were \$160,000 and \$170,000, respectively. The Organization expects to contribute \$260,000 to the Plan during the year ended September 30, 2018. No Plan assets are expected to be returned to the Organization during the year ended September 30, 2018.

The following tables set forth further information about the Organization's defined benefit pension Plan as of and for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 4,178,233	\$ 4,049,954
Interest cost	225,480	218,772
Actuarial loss	30,934	65,655
Benefits paid	(157,202)	(156,148)
Projected benefit obligation, end of year	<u>4,277,445</u>	<u>4,178,233</u>
Change in Plan assets		
Fair value of Plan assets, beginning of year	2,926,010	2,790,532
Actual return on Plan assets	343,508	121,626
Employer contributions	160,000	170,000
Benefits paid	(157,202)	(156,148)
Fair value of Plan assets, end of year	<u>3,272,316</u>	<u>2,926,010</u>
Funded status	<u>\$ (1,005,129)</u>	<u>\$ (1,252,223)</u>

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 7 - Defined Benefit Plan (Cont.)

The change in the defined benefit pension plan deferrals is comprised of the following for the years ended September 30:

	2017	2016
Interest cost	\$ 225,480	\$ 218,772
Expected return on Plan assets	(156,607)	(149,504)
Net amortization/deferral		
Amortization of prior service cost	768	768
Amortization of net loss	49,481	46,601
Net periodic benefit cost	\$ 119,122	\$ 116,637

The amounts that have not yet been recognized as a component of net periodic benefit cost are as follows as of September 30:

	2017	2016
Deferred net loss on Plan assets	\$ 1,295,012	\$ 1,500,460
Deferred prior service costs	4,602	5,370
Net deferred cost	\$ 1,299,614	\$ 1,505,830

The estimated net loss and prior service cost that will be amortized from changes in unrestricted net assets into net periodic benefit cost for the years ended September 30, 2017 and 2016 were \$49,481 and \$46,601, respectively.

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 7 - Defined Benefit Plan (Cont.)

The underlying rates used to determine the net periodic benefit cost were as follows:

	<u>2017</u>	<u>2016</u>
Weighted average discount rate	5.50%	5.50%
Rate of compensation increase	0.00%	0.00%
Expected long-term rate of return	5.50%	5.50%

The investment policy is conservative, intended to preserve principal. This is accomplished by investing in select account assets managed by Raymond James. The primary allocation of Plan assets is in stocks. The management and diversification processes are the direct responsibility of the investment manager.

The IRS required interest rate factors for valuing benefit obligations result in currently higher benefit obligations, while relatively low (but increasing) plan yields inhibit the growth in the value of the plan assets. However, the Organization has effectively determined that principal preservation is paramount at this time, even if that goal results in a temporarily larger mismatch between the growth of Plan benefit obligations in relation to the growth of the Plan assets. The Organization currently views the risk associated with other investments, such as equities, as too high as a significant loss in principal would be difficult to overcome in what are uncertain economic and equity market conditions.

The expected long-term rate of return on assets was determined by reference to the anticipated long-term returns on a conservative investment portfolio, determined with guidance from the professionals working with the Organization on the Plan matters.

Americans United for Separation of Church and State  
 NOTES TO FINANCIAL STATEMENTS (Cont.)  
 September 30, 2017

Note 7 - Defined Benefit Plan (Cont.)

The Plan's weighted-average asset allocations by asset category are as follows at September 30:

	2017	2016
Cash and equivalents	5%	1%
Equities	75%	81%
Fixed income	20%	18%
	100%	100%

The target is to maintain the following allocations:

	Minimum	Maximum	Preferred
Cash and equivalents	0%	100%	5%
Equities	25%	85%	70%
Fixed income	5%	65%	30%

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 7 - Defined Benefit Plan (Cont.)

The following tables summarize the Organization's pension plan assets, by level, within the fair value hierarchy, by asset category at:

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 149,584	\$ -	\$ -	\$ 149,584
Corporate stocks	1,888,701	-	-	1,888,701
Preferred stocks	399,237	-	-	399,237
Exchange traded funds	171,349	-	-	171,349
Corporate bonds	663,445	-	-	663,445
Total assets	\$ 3,272,316	\$ -	\$ -	\$ 3,272,316

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 34,588	\$ -	\$ -	\$ 34,588
Corporate stocks	1,742,989	-	-	1,742,989
Preferred stocks	445,300	-	-	445,300
Exchange traded funds	169,477	-	-	169,477
Corporate bonds	533,656	-	-	533,656
Total assets	\$ 2,926,010	\$ -	\$ -	\$ 2,926,010

Americans United for Separation of Church and State  
 NOTES TO FINANCIAL STATEMENTS (Cont.)  
 September 30, 2017

Note 7 - Defined Benefit Plan (Cont.)

The estimated future benefit payments are as follows for future years ending September 30:

2018	\$ 259,777
2019	252,367
2020	244,661
2021	256,073
2022	268,737
2023-2027	<u>1,404,721</u>
	<u>\$ 2,686,336</u>

Note 8 - Retirement Plan

The Organization offers its staff the option to participate in a defined contribution retirement plan pursuant to Section 401(k) of the Internal Revenue Code. The Organization has adopted this Plan as of January 1, 2010. Substantially all employees with at least 1,000 hours of service in any Plan year are eligible to participate and may contribute up to the maximum limitation imposed by the IRS. Beginning on January 1, 2012 the Organization has adopted a safe harbor matching contribution equal to a 100% match on the first 1% of employee deferrals and an additional 50% match on the next 5% of employee deferrals. Pension expense related to the defined contribution plan for the years ended September 30, 2017 and 2016 was \$82,355 and \$72,470, respectively and is included in employee benefits in the accompanying detail schedule of expenses.

Note 9 - Compensated Absences

Employees of the Organization are entitled to paid vacation, sick leave and personal days depending on job classification and length of service. Employees can carryover up to five vacation days at the end of the year. Paid sick leave can accrue up to 120 days although the Organization is not required to pay accumulated sick leave upon termination of employment. The liability for compensated absences at September 30, 2017 and 2016 was \$166,951 and \$156,955, respectively. The balance is included in accrued expenses on the statement of financial position.

Americans United for Separation of Church and State  
 NOTES TO FINANCIAL STATEMENTS (Cont.)  
 September 30, 2017

Note 10 - Unrestricted, Board Designated Net Assets

The Organization has designated the proceeds from the sale of their office building and invested the funds into a Board designated investment account. Principal and earnings are designated for future endeavors that fall within the mission of the Organization at the discretion of the Board of Directors. The Board designated net assets at September 30, 2017 and 2016 totaled \$7,643,258 and \$6,861,844, respectively.

Note 11 - Temporarily Restricted Net Assets

A summary of temporarily restricted net assets is as follows at September 30:

	2017	2016
Hames Remainder Trust	\$ 115,196	\$ 111,807
Pledges receivable	-	67,500
Total	\$ 115,196	\$ 179,307

Note 12 - Charitable Gift Annuities Payable

The Organization has received cash donations under charitable gift annuity agreements. In consideration of the gifts, the Organization agrees to pay annuities to the donors, over the lives of the donors. Annuity payments and changes in the annuity payable for life expectancy changes of donors amounted to a decrease of \$46,825 and \$54,771 for the years ended September 30, 2017 and 2016, respectively.

Based on donor life expectancies and the use of discount rates ranging from 1.2% to 7.4%, the fair value of the charitable gift annuities is the present value of future obligations expected to be paid by the Organization and is estimated to be \$745,516, which is recorded as a current liability of \$150,657 and a long term liability of \$594,859 in the statement of financial position as of September 30, 2017. As of September 30, 2016 the present value of future obligations expected to be paid by the Organization was estimated to be \$853,741, which was recorded as a current liability of \$167,282 and a long term liability of \$686,459. Net contribution revenues recognized under these agreements were \$6,520 and \$52,539 for the years ended September 30, 2017 and 2016, respectively.



Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 13 - Allocation of Joint Costs

During the year ended September 30, 2017, the Organization incurred joint costs of \$1,011,289 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, \$591,615 was allocated to fundraising expense, \$340,233 was allocated to the educational and publication division, and \$79,441 was allocated to management and general. In the prior year ended September 30, 2016, the Organization incurred joint costs of \$915,589 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, \$597,979 was allocated to fundraising expense, \$235,215 was allocated to the educational and publication division, and \$82,395 was allocated to management and general.

Note 14 - Charitable Remainder Trust

The Organization administers a charitable remainder trust. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the Trust's term (usually the designated beneficiary's lifetime). At the end of the Trust's term, the remaining assets are available for the Organization's use. The portion of the Trust attributable to the present value of the future benefits to be received is recorded in the statement of activities as a temporarily restricted contribution in the period the trust is established. Such contributions totaled \$472,612 in the year ended September 30, 2007. Assets held in the charitable remainder Trust totaled \$262,093 and \$261,015 at September 30, 2017 and 2016, respectively and are reported at fair market value in the statement of financial position as restricted cash and investments. On an annual basis, the Organization revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments totaled \$146,897 and \$149,208 at September 30, 2017 and 2016, respectively and is calculated using a discount rate of 6% and applicable mortality tables.

Note 15 - Commitments

In August 2016, the Organization entered into a two-year agreement starting November 1, 2016 with Thrive, whereby Thrive agrees to develop, implement, and assume responsibility for a direct response, public education, and fundraising program for and on behalf of the Organization. Thrive receives a monthly consulting fee of \$9,500 for the agreement period. For the years ended September 30, 2017 and 2016, the consulting fee incurred by the Organization amounted to \$109,200.

The Organization was obligated under a lease agreement for its former office premises in Washington, D.C. The lease was signed in January 2015 with a term of 22 months and expired in December 2016. The lease monthly payments were \$27,595 with an annual increase of 4.5%. Rent expense incurred during the years ended September 30, 2017 and 2016 amounted to \$84,476 and \$337,891, respectively.

Americans United for Separation of Church and State  
 NOTES TO FINANCIAL STATEMENTS (Cont.)  
 September 30, 2017

Note 16 - Operating Lease

In November 2015, the Organization entered into an agreement to lease office space in Washington D.C. The lease commenced in January 2017 and has a 130 month term expiring on October 31, 2027. The lease calls for initial monthly payments of \$42,360 beginning in November 2017 with annual increases of 2.5%. The lease is also subject to common area maintenance of 7.94% of increased operating expenses and increased real estate taxes over the 2017 base year. The Organization has one option to extend the lease for an additional 5 year period with base rent to be calculated at the then prevailing market rent. The optional lease extension was not included in the operating lease right of use asset and lease liability calculation. The lease also allowed for a tenant improvement allowance in the amount of \$856,725.

The Organization has early adopted Accounting Standards Update No. 2016-2 Leases during the year ended September 30, 2017, and has recognized a right of use asset in exchange for a lease liability, initially measured at the present value of the lease payments in the amount of \$4,841,786, in the statement of financial position. The Organization used the risk free rate of return (prime rate) at the commencement date of the lease of 3.75% to calculate the present value of the lease payments. The right of use asset and lease liability at September 30, 2017 amounted to \$4,841,786.

The weighted average remaining lease term for the operating lease at September 30, 2017 was 121 months, and the weighted average discount rate for the operating lease at September 30, 2017 was 3.75%.

The cost of the lease is allocated over the lease term on a straight-line basis. Lease expense for the year ended September 30, 2017 amounted to \$352,042.

The Organization has future minimum lease payments on the above operating lease as follows:

<u>Year Ending September 30:</u>	
2018	\$ 479,877
2019	535,685
2020	549,088
2021	562,835
2022	585,931
Thereafter	<u>3,228,413</u>
Total	5,941,829
Less: present value discount	<u>(1,100,043)</u>
Lease liability	<u>\$ 4,841,786</u>

Total rent expense for the years ended September 30, 2017 and 2016 was \$436,518 and \$337,891, respectively.

Americans United for Separation of Church and State  
 NOTES TO FINANCIAL STATEMENTS (Cont.)  
 September 30, 2017

Note 17 - Finance Leases

The Organization leases equipment under agreements that have been accounted for as finance leases. The leases expire from May, 2018 to January, 2022. The finance leases have been capitalized and recorded as right of use assets in the statement of financial position. The finance lease obligations have been recorded in the financial statements at the present value of future minimum lease payments, discounted at an interest rate ranging from 3.8% to 5.5%. The capitalized cost of the leased equipment amounted to \$78,422 and \$97,029, as of September 30, 2017 and 2016, respectively. At September 30, 2017 and 2016, the book value of the equipment was \$61,615 and \$34,899, respectively.

Amortization expense attributable to the equipment amounted to \$16,807 and \$19,288 for the years ended September 30, 2017 and 2016, respectively, and is included in depreciation expense.

Interest expense incurred on the leases amounted to \$2,281 and \$1,995 during the years ended September 30, 2017 and 2016, respectively.

The weighted average remaining lease term for finance leases as of September 30, 2017 amounted to 4.14 years.

The following is a schedule of the minimum lease payments due on the finance leases:

<u>Year Ending September 30:</u>	
2018	\$ 17,247
2019	16,793
2020	14,525
2021	14,525
2022	<u>4,841</u>
Total future minimum lease payments	67,931
Less amount representing interest	<u>(5,257)</u>
Present value of future minimum payments (including current portion of \$15,060)	<u><u>\$ 62,674</u></u>

Americans United for Separation of Church and State  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
September 30, 2017

Note 18 - Overstatement of Expense

Subsequent to the issuance of the financial statements, the Organization discovered that common area maintenance operating and real estate tax expenses related to the new office lease were overstated by \$174,699 on the financial statements for the year ended September 30, 2017. The financial statements for the year ended September 30, 2017 have been corrected for the expense overstatement as follows:

	Deferred Rent Liability	Utilities Expense
Balance, before correction 9/30/17	\$ 1,383,469	\$ 177,467
Reversal of common area maintenance accrual	(174,699)	(174,699)
Corrected balance 9/30/17	\$ 1,208,770	\$ 2,768

Note 19 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through March 19, 2018, the date the Organization's financial statements were available to be issued, that require recognition or disclosure.

SUPPLEMENTARY INFORMATION

Americans United for Separation of Church and State  
DETAIL SCHEDULE OF EXPENSES

Year Ended September 30, 2017

With Summarized Financial Information for the Year Ended September 30, 2016

	Program Services				Supporting Services			Total		
	Educational and Publication Division	Field Services Division	Legal Division	Trustees and National Advisory Council Meetings	Total Program Services	Management and General	Fundraising	Total Supporting Services	2017	2016
Salaries	\$ 618,896	\$ 701,485	\$ 853,423	\$ -	\$ 2,173,804	\$ 510,492	\$ 248,021	\$ 758,513	\$ 2,932,317	\$ 2,703,859
Direct mail	340,233	-	-	-	340,233	79,441	591,615	671,056	1,011,289	915,589
Employee benefits/payroll taxes	188,672	213,549	270,434	-	672,655	170,460	82,063	252,523	925,178	971,667
Office rent/lease expense	94,319	106,905	130,061	-	331,285	67,435	37,798	105,233	436,518	337,891
Consulting fees	94,980	12,043	38,353	-	145,376	7,597	211,321	218,918	364,294	255,066
Professional fees	24,048	83,292	39,712	-	147,052	17,193	9,637	26,830	173,882	49,290
Printing and production	147,770	2,593	8,298	-	158,661	1,828	9,825	11,653	170,314	175,587
Dues and subscriptions	17,020	57,352	56,549	-	130,921	13,748	14,086	27,834	158,755	110,889
Postage and delivery	118,163	8,495	1,328	-	127,986	1,906	25,473	27,379	155,365	141,192
Depreciation and amortization	30,974	34,006	41,373	-	106,353	21,451	12,023	33,474	139,827	79,527
Travel and entertainment	7,560	14,519	42,902	-	64,981	40,447	16,584	57,031	122,012	95,364
Telephone, internet and website	24,521	15,383	13,537	-	53,441	14,332	4,600	18,932	72,373	64,022
Bank fees	15,549	17,657	20,308	-	53,514	7,194	5,519	12,713	66,227	52,384
Trustees expenses	-	-	-	65,688	65,688	-	-	-	65,688	46,784
Meetings and conventions	1,504	51,163	4,275	-	56,942	295	96	391	57,333	35,245
Voices united	21,299	-	-	-	21,299	31,574	-	31,574	52,873	31,737
Other / special projects	2,236	2,631	21,717	-	26,584	7,684	15,179	22,863	49,447	61,696
Data processing	-	-	-	-	-	-	45,561	45,561	45,561	42,241
Supplies	8,904	4,040	5,629	-	18,573	13,377	2,104	15,481	34,054	37,326
Accounting/audit	6,616	7,497	9,123	-	23,236	4,730	2,651	7,381	30,617	28,944
Chapter reimbursements	-	29,444	-	-	29,444	-	-	-	29,444	58,653
Insurance	4,578	5,189	12,387	-	22,154	3,272	1,835	5,107	27,261	25,675
Writers and news services	15,193	-	-	-	15,193	-	-	-	15,193	12,540
Donated services	-	-	15,000	-	15,000	-	-	-	15,000	-
Payroll services	1,493	1,692	2,058	-	5,243	1,067	598	1,665	6,908	5,155
Minor equipment	810	919	1,117	-	2,846	2,787	325	3,112	5,958	6,058
Advertising	1,657	-	-	-	1,657	3,310	-	3,310	4,967	11,150
Temporary help	500	-	2,500	-	3,000	-	-	-	3,000	-
Utilities	598	678	825	-	2,101	427	240	667	2,768	7,405
Interest expense	493	559	680	-	1,732	351	198	549	2,281	1,995
<b>Total expenses</b>	<b>\$ 1,788,586</b>	<b>\$ 1,371,091</b>	<b>\$ 1,591,589</b>	<b>\$ 65,688</b>	<b>\$ 4,816,954</b>	<b>\$ 1,022,398</b>	<b>\$ 1,337,352</b>	<b>\$ 2,359,750</b>	<b>\$ 7,176,704</b>	<b>\$ 6,364,931</b>